

## REMARKS

Remarks are preceded by comments from the Examiner, presented in indented bold-faced type.

### **Claim Rejections - 35 USC § 112**

**2. Claims 10 and 11, are rejected under 35 U.S.C. 112, second paragraph, as being indefinite for failing to particularly point out and distinctly claim the subject matter which applicant regards as the invention.**

**In particular, Claims 10 and 11, do not meet the criteria for an Hedge because it appears one side of the hedge is offsetting it self, rather than the opposite side of the hedge and for further examination the Examiner interprets the claim limitations as designate, a portion of the first part as a hedge of the financial exposure such that the first part offsets the delta of the second part in light of the 112, second rejection .**

The Examiner's rejection is respectfully traversed. The Examiner's comments suggest that there may be some confusion as to what is being claimed. To be clear, claims 10 and 11 are not directed to a hedging method, *per se*, but rather are directed to a method of reducing periodic earnings volatility associated with accounting for a hedging transaction. In other words, it is a method that is associated with the accounting for hedging transactions. See, e.g., page 8, lines 15 – page 9, line 14 , discussing that the claimed method may be used to structure a hedge for accounting purposes so as to provides advantageous accounting treatment. Claims 10 and 11 have been amended to help clarify the claimed structure. The undersigned respectfully submits that the Examiner's rejections of Claims 10 and 11 under 35 USC § 112 are moot in light of amendments made to these claims.

### **Claim Rejections - 35 USC § 103**

**4. Claims 1-9, 12-14, are rejected under 35 U.S.C. 103(a) as being unpatentable over Statement of financial accounting standards No. 133, accounting for derivative instruments and hedging activities by Edmund L. Jenkins (Hereinafter Jenkins Nov, 1998. Vol. 186, Iss.5; 12 pages) in view of Wallman U.S Patent 6, 360, 210.**

**As per claims 1, 7-8, Jenkins discloses a method implemented by a programmed computer system for reducing periodic earnings volatility associated with a hedged exposure, the method comprising . . . and in each of a plurality fo sequential periods. ("i.e., future periods "see page 16 paragraph 31").**

**Jenkins fail to explicitly teach redesignation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument.**

**However Jenkins teaches designation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument, and it would have been obvious to one of ordinary skill in the art that redesignation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument would have been repeating the designation process of Jenkins.**

The Examiner's rejection is respectfully traversed. Jenkins does not disclose a method or system for reducing periodic earnings volatility associated with accounting for a hedging transaction as recited by claim 1. For example, Jenkins does not go so far as to disclose or suggest that, in each of a plurality of sequential periods, data is processed on a computer to compute a redesignation for accounting purposes of the portion of the financial exposure based on changed price sensitivity.

The undersigned respectfully disagrees with the Examiner's conclusion that "it would have been obvious to one of ordinary skill in the art ... [to perform the redesignation claimed by the present applicant]." The Examiner's position seems to be that merely because a reference teaches performing a financial calculation once, it would obviously be advantageous to repeat that financial calculation multiple times on a periodic basis. The undersigned respectfully submits that this is not the case as for many financial calculations, repeating the calculation on a periodic basis would introduce errors or not be permissible. As a simple example, consider a mortgage calculation in which a single payment is repeatedly applied – obviously, re-application of a single payment would incorrectly affect the principal due. Accordingly, it cannot be said that simply re-applying financial calculations is "obvious."

The undersigned respectfully submits that a conclusion of the "obviousness" of re-applying a calculation in the manner recited by claim 1 should be supported by some objective evidence. However, the Examiner has provided no objective support for his conclusion. The undersigned submits that this appears to be a case in which the Examiner's conclusion of "obviousness" is merely based on an application of hindsight reasoning gained by the Examiner's review of the present application. Such hindsight reasoning is impermissible. The

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Federal Circuit has recently reiterated the requirement that there be a "rigorous" showing of the teaching or motivation to combine references. In particular, in a recent decision in the matter of *In Re Bruce Beasley* (Fed. Cir. Dec. 7, 2004), the Federal Circuit stated:

Given the "subtle but powerful attraction of a hindsight-based obviousness analysis," we require a "rigorous application of the requirement for a showing of the teaching or motivation to combine prior art references."

*In Re Beasley* at 7 citing to *In re Dembiczak*, 175 F.3d 994, 999 (Fed. Cir. 1999).

For the convenience of the Office, a courtesy copy of *In Re Beasley* is attached to this Response.

The MPEP further notes:

The tendency to resort to "hindsight" based upon applicant's disclosure is often difficult to avoid due to the very nature of the examination process. However, impermissible hindsight must be avoided and the legal conclusion must be reached on the basis of the facts gleaned from the prior art.  
(MPEP 2142)

Furthermore, MPEP 2143 states:

The teaching or suggestion to make the claimed combination and the reasonable expectation of success must both be found in the prior art, not in applicant's disclosure. In *re Vaeck*, 947 F.2d 488, 20 USPQ2d 1438 (Fed. Cir. 1991).  
(MPEP 2143)

However, here again, the Examiner has not cited where in the prior art there is a teaching or suggestion to make the claimed combination. It follows then that if the teaching to make the combination is not found in the prior art, then such a teaching may have been impermissibly derived from applicant's disclosure. The undersigned respectfully requests that the Examiner either withdraw his rejection of the claims or provide some objective evidence of a teaching found in the prior art to make the combination made by the Examiner.

\* \* \*

As per claims 10-11, Lange discloses a method implemented by programmed computer system for of reducing periodic earnings volatility associated with a hedged exposure, the method comprising:

hedging instrument comprising a first and a second part. (inherent with hedging instrument") wherein changes in the value of the first part substantially offset changes in value of the financial exposure (see page 9-12 of paragraph 18-22) and

designate a portion of the first part as a hedge of the financial exposure such that the remainder of the first part offsets the delta of the second part. (see page 9-12 of paragraph 18-22) and designate, a portion of the first part as a hedge of the financial exposure such that the remainder of the first part offsets the delta. ("i. e, volatility") of the second part. (see page 9-12 of paragraph 18-22) and in each of a plurality of sequential periods. ("i. e, future periods "see page 16 paragraph 31").

The undersigned respectfully submits that the Examiner's rejection is insufficiently clear and respectfully request that the Examiner either allow claims 10-11 or issue a new non-final office action clearly stating the basis for the Examiner's rejections. An example of the problems in the Examiner's rejection include, e.g., that the Examiner cites to Lange as disclosing a method ... for reducing periodic earnings volatility and asserts that Lange teaches the "hedging instrument comprises" and to "designate a portion of the first part ...". However, Lange does not appear to offer the purported teachings.

Jenkins fail to explicitly teach a redesignation of the portion of the first part such that the remainder of the first part offsets the delta of the second part.

However Jenkins teaches designation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument, and it would have been obvious to one of ordinary skill in the art that the redesignation of the portion of the first part such that the remainder of the first part offsets the delta of the second part would have been repeating the designation process of Jenkins.

The undersigned respectfully submits that Jenkins purported teaching of "designation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument, and it would have been obvious to one of ordinary skill in the art that the redesignation of the portion of the first part such that the remainder of the first part offsets the delta of the second part would have been repeating the designation process of Jenkins" does not make the claimed limitation obvious.

In the first place, the claimed limitation, which is directed to establishing certain offsetting accounting designations, is not supported by the cited "designation" of Jenkins as the cited Jenkins designation does not teach the use of offsetting portions and the Examiner has provided no objective support for his conclusion. The undersigned submits that this appears to be a case in which the Examiner's conclusion of "obviousness" is merely based on an application of hindsight reasoning gained by the Examiner's review of the present application. (See MPEP 2142 ).

Furthermore, and separate and distinct from the aforementioned "hindsight reasoning" problem is the problem that the combination urged by the Examiner requires modification of the teachings of the cited reference. That is, while the Examiner asserts that "Jenkin's teaches the designation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument", the examiner says that it is "obvious" that this is a teaching "that the redesignation of the portion of the first part such that the remainder of the first part offsets the delta of the second part" would have been repeating the designation process of Jenkins. The undersigned respectfully submits that this modification of Jenkin's teaching is merely an impermissible application of hindsight.

Furthermore, where the Examiner's combination requires that the cited references be modified to support the Examiner's claims of obviousness, the Examiner's burden is greater and there must be some objective reason to combine the teachings of the references. (See MPEP 2143.01)

A statement that modifications of the prior art to meet the claimed invention would have been " 'well within the ordinary skill of the art at the time the claimed invention was made' " because the references relied upon teach that all aspects of the claimed invention were individually known in the art is not sufficient to establish a prima facie case of obviousness without some objective reason to combine the teachings of the references. *Ex parte Levengood*, 28 USPQ2d 1300 (Bd. Pat. App. & Inter. 1993). See also *In re Kotzab*, 217 F.3d 1365, 1371, 55 USPQ2d 1313, 1318 (Fed. Cir. 2000) (Court reversed obviousness rejection involving technologically simple concept because there was no finding as to the principle or specific understanding within the knowledge of a

skilled artisan that would have motivated the skilled artisan to make the claimed invention); *Al-Site Corp. v. VSI Int'l Inc.*, 174 F.3d 1308, 50 USPQ2d 1161 (Fed. Cir. 1999) (The level of skill in the art cannot be relied upon to provide the suggestion to combine references.).  
(MPEP 2143.01 (emphasis added))

The undersigned respectfully submits that the Examiner has not met his burden of providing objective evidence in support of the Examiner's conclusion of obviousness and, accordingly, it is respectfully requested that the rejections be withdrawn.

\* \* \*

**Therefore it would have been obvious to one of ordinary skill in the art at the time the invention was made to modify the teachings of Jenkins to include executing a computer program module configured to receive data and process computer code instructions to account for a financial exposure of an associated hedging instrument taught by Wallman in order to for an investor can manage and limit the inherent risk in a portfolio.**

Claims 10-11 have been amended for clarity. The undersigned respectfully submits that claims 10-11, as amended, distinguish over Lange, Walliman, and Jenkins. The undersigned submits that Neither Lange, Jenkins, or Wallman, alone or in combination, teach or suggest a method implemented by a programmed computer system for reducing periodic earnings volatility associated with accounting for a hedging transaction that includes a hedging instrument comprising a first and a second part, said first part comprising a first sub-portion and a second sub-portion, and wherein changes in the value of the first part substantially offset changes in value of the financial exposure combined with the executing of a computer program module configured to receive data and process computer code instructions to (i) determine relative sizes of the first and second sub-portions such that the second sub-portion offsets the delta of the second part and (ii) effect accounting designations whereby the first sub-portion is designated as a hedge of at least a portion of the financial exposure and the second sub-portion is not designated as a hedge of the financial exposure and executing a computer program module configured to receive data and process computer code instructions to determine, in each of a plurality of sequential periods, a redesignation for accounting purposes of relative sizes of the

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first sub-portion designated as a hedge of at least a portion of the financial exposure and the second sub-portion that is not designated as a hedge of the financial exposure such that the re-designated second sub-portion continues to substantially offset the delta of the second part.

**As per claims 12-13, Jenkins discloses a method of accounting for a hedged exposure, the method comprising . . . prior to each of a series of sequential time periods, a designated portion of the total exposure value based on a current sensitivity of a price of the hedging instrument and the value of the exposure, and account for the hedging instrument as a hedge on the designated percentage**

**\* \* \***

**As per claim 14, Jenkins discloses a computer system comprising:**

**\* \* \***

**Jenkins fail to explicitly teach, data is computed to redesignate the portion of the financial exposure based on changed price sensitivity. ("i. e, changes") of the hedging instrument.**

**However Jenkins teaches designation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument, and it would have been obvious to one of ordinary skill in the art that redesignation of the portion of the financial exposure based on changed price sensitivity of the hedging instrument would have been simply repeating the designation process of Jenkins.**

**\* \* \***

**Therefore it would have been obvious to one of ordinary skill in the art at the time the invention was made to modify the teachings of Jenkins to include host computer comprising a processor coupled to a memory comprising instructions to configure the processor to process executable instructions and data to compute a value representing a reduction in earnings volatility in a derivative account taught by Wallman in order to for an investor can manage and limit the inherent risk in a portfolio.**

The Examiner's rejection of independent claims 12 and 14 is similar to the rejection of claims 10-11 insofar as the Examiner, in rejecting claims 12 and 14, has both combined multiple prior art references and has modified the teachings of those references. As with claims 10-11, it is respectfully submitted that the Examiner's combination of references, and modifications to those references, is not adequately supported by objective evidence and, accordingly, is improper. It is respectfully requested that the Examiner withdraw the rejection of claims 12 and 14 and allow the claim.

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Claims 2-9, 11, and 13 each depend, directly or indirectly, from an independent claim. The undersigned respectfully submits that these independent claims are allowable for at least the reasons set forth with respect to the independent claim from which they depend.

**Conclusions**

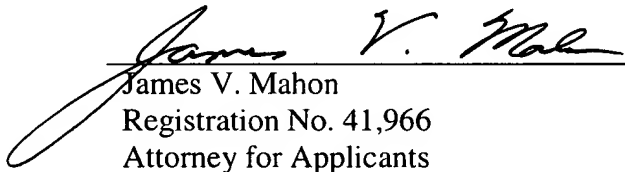
Claims 1-14 are now pending and are believed to be in condition for allowance. The undersigned respectfully requests that the Examiner allow all pending claims.

No new matter has been added.

Please apply any credits or excess charges to our deposit account number 50-0521.

Respectfully submitted,

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